

Town Council Agenda Report

SUBJECT: Resolution

CONTACT PERSON/NUMBER: Gail Reinfeld, (954) 797-1020

TITLE OF AGENDA ITEM: A RESOLUTION OF THE TOWN OF DAVIE, FLORIDA, SELECTING CIGNA HEALTHCARE TO PROVIDE GROUP MEDICAL INSURANCE AND AUTHORIZING THE ADMINISTRATIVE SERVICES DIRECTOR TO EXECUTE THE APPLICATION FOR INSURANCE.

REPORT IN BRIEF: The Town received a significant rate increase for medical insurance from its current carrier, Prudential HealthCare. Effective January 1, 00, the premiums will increase by 27.84% for the Health Maintenance Organization plan and 61.17% for the Point of Service plan. The Town decided it would seek proposals from alternate carriers and retained the services of Marsh (a subsidiary of The Mercer Group) to coordinate the proposal process. The Town solicited proposals on November 1, 1999, from health insurance carriers and five proposals were received on November 19, 1999. Proposals were submitted by the following medical insurance carriers: Cigna HealthCare, Florida League of Cities, HIP, Humana, and United HealthCare. The Selection Committee reviewed proposals on November 23, 1999, and found that United submitted the highest proposal and Cigna submitted the lowest proposal. The Florida League of Cities submitted a proposal only for the Point of Service plan and, therefore, did not meet the Town's specifications. As Cigna HealthCare and HIP offered the most competitive and comparable benefit designs, they were selected to make presentations to the Committee.

On December 1, 1999, the Selection Committee recommended the use of Cigna HealthCare as the preferred provider instead of HIP. Cigna's offers a plan design that has substantially equivalent benefits to the current plan, so no bargaining issues were created with the represented groups, and it offered quality medical benefits. Further, Cigna's physician match was approximately 59% which results in a 41% disruption rate. The premiums for Cigna are 13% lower than the January 1, 2000 rate increase from Prudential for the Health Maintenance Organization plan and 28% lower than the Point of Service plan. Also, upon review of HIP's plan, it was determined that HIP could not match the Town's current plan design, the premiums were higher than Cigna's with less coverage, and the physician match was lower than Cigna's (approximately 48%) which results in a disruption rate of 52% -- a higher percentage than the disruption rate resulting from the plan offered by Cigna.

Cigna was the only insurance carrier that provided a plan design comparable to the Town's current design, but an alternative to the selection of Cigna HealthCare would be to continue the Town's medical insurance with Prudential HealthCare at a 27.84% increase for its Health Maintenance Organization plan and a 61.17% increase for its Point of Service plan. However, insurance expenses for the Town were budgeted with a 15% increase, therefore, most of Prudential's increase in premiums has not been budgeted.

PREVIOUS ACTIONS: Not applicable

CONCURRENCES: The Town's Selection Committee recommends Cigna HealthCare as the firm best qualified to provide medical insurance services to the Town.

FISCAL IMPACT:

Has request been budgeted? yes

If yes, expected cost: \$1,976,818 (Town's share is \$1,481,617)

Account Name: Medical Insurance

The monthly premiums for the Health Maintenance Organization plan are: single coverage, \$180.13; and, dependent coverage, \$540.39. The premiums for the Point of Service plan are: single coverage, \$197.43; and, dependent coverage, \$592.30.

RECOMMENDATION(S): Motion to approve the Resolution

Attachment(s): Resolution, Application, Rating Form, Summary Report and Cost Comparison Renewal Analysis

RESOLUTIO	N NO.	
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A RESOLUTION OF THE TOWN OF DAVIE, FLORIDA, SELECTING CIGNA HEALTHCARE TO PROVIDE GROUP MEDICAL INSURANCE AND AUTHORIZING THE ADMINISTRATIVE SERVICES DIRECTOR TO EXECUTE THE APPLICATION FOR INSURANCE.

WHEREAS, the Town solicited proposals for group medical insurance for employees and their dependents, elected officials, and eligible participants; and

WHEREAS, the Selection Committee has selected Cigna HealthCare as the firm best qualified to provide group medical insurance; and

WHEREAS, it is in the Town's best interest to execute the application for insurance.

NOW, THEREFORE, BE IT RESOLVED BY THE TOWN COUNCIL OF THE TOWN OF DAVIE, FLORIDA:

<u>SECTION 1</u>. The Town Council of the Town of Davie accepts Cigna HealthCare as the carrier for group medical insurance and authorizes the Administrative Services Director to execute the application for insurance, attached hereto as Exhibit "A".

<u>SECTION 2</u>. The initial term is one (1) year. By ordinance, insurance may be renewed for up to four (4) additional one year terms beyond the original contract. Extensions, if appropriate, will be handled administratively by staff, subject to budgetary approval by Town Council.

<u>SECTION 3</u> . This resolution sh	all take effect immediately	upon its passage and adopt	ion.
PASSED AND ADOPTED THIS	DAY OF	, 1999	
	MAYOR/COUNG	CILMEMBER	
Attest:			
TOWN CLERK			
APPROVED THIS DAY (OF	, 1999	

Application

Insured and/or Administered by Connecticut General Life Insurance Company CIGNA HealthCare



Town of						
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This summary is a result of the Request for Proposal (RFP) released by Marsh, USA, Inc. November 19, 1999, on behalf of the Town of Davie. The purpose of this quotation was to market and solicit bid responses for the Health Insurance program as well as the Employee Assistance Program (EAP).

Enclosed we have performed a comprehensive analysis based on the criteria outlined in the RFP. This information included Plan design, Rates, Contracts and a general overview. The enclosed analysis is broken out into several sections and was completed in an effort to pick several finalists for the interview process.

Markets Approached Medical Cost comparison Medical Plan Comparison EAP Cost and Plan Comparison

Markets Approached

Marsh solicited 15 bids from various carriers, and received 5 bids from:

CIGNA Healthcare Florida League of Cities HIP Humana United Healthcare

The remaining carriers did not respond, were late, or chose not to quote for various reasons. Additionally, there were several qualifiers used to measure the responses forwarded by the carriers. The 3 most important parameters used to measure the responses were as follows:

Cost Plan Design Access

Prudential currently insures the Town of Davie for medical at a cost of approximately \$1,757,987. The proposed renewal requested an increase to approximately \$2,412,958.

This section outlines the cost associated with each Health bid. Four carriers submitted proposals for HMO and 5 carriers submitted quotes for POS. The highest bid was submitted by United at \$2,540,684 with the lowest submitted by CIGNA Healthcare at \$1,976,818. One Carrier, Florida League of Cities, submitted a proposal for POS only; therefore not meeting the specifications as required.

The Health insurance bids were shortlisted to 3 main carriers: CIGNA, HIP, and Humana. Carriers were then ranked by price with CIGNA, HIP, and Humana first, second, and third respectively.

Marsh requested that carriers submit benefits proposals that closely match the current benefits in force. After an in-depth analysis of the cost, the proposals for the 3 remaining carriers were analyzed. Although all 3 carriers submitted formidable proposals, it was decided that CIGNA and HIP provided the most competitive as well as comparable benefit designs with only a few discrepancies. Both CIGNA and HIP were contacted to provide presentations and take part in the interview process.

In addition, an in-depth disruption analysis was performed based on information provided by the Town of Davie. The information showed the providers currently selected by the employees of the Town of Davie. Out of a possible 912 selections, CIGNA matched approximately 540 selections or 59% and HIP matched approximately 434 or 48%.

Both carriers were interviewed and it was determined that CIGNA would be the carrier to provide the Health insurance to the Town of Davie for the Year 2000. This decision was based on cost, benefits, access, flexibility, and quality. In addition, CIGNA ranked first in each of the rated categories. HIP as a carrier was more expensive and did not possess the flexibility to accommodate the plan design requirements.

Self Insurance

The concept of self insuring Medical or Dental group insurance programs transfers the risk and administrative components of the program from the insurance carrier to the employer. All aspects of a group program; claim payments, stop loss insurance, administration, fund reserves, eligibility files, remain. Self insurance reduces the required premium tax payments normally assessed by the state to the insurance carriers and also reverts any insurance company profits earned from the group to the self-insured entity. These two factors are quite small as it relates to the overall cost of the program. The 2 components typically approximate less than 5% of the overall program cost. Self insurance will not reduce claim costs as the program has no affect on the rate of illness or frequency of medical services.

Self insurance can increase administrative or claim costs given the employer must now contract direct for all services and can frequently lose the efficiency and economies of scale a large insurer enjoys. In addition, the purchasing power of health services and ability to secure meaningful discounts in a network based product from medical providers is diminished when an employer is not a member of an insurers program. The end result could be an increase in claim costs per unit of service.

Plan administration can be costly given the need to buy separate services for claim payment, utilization review, medical management, stoploss insurance, customer service functions and eligibility record keeping. Insurers typically have the financial power to invest heavily in computer systems to link all these functions directly. Further, purchasing these services independently increases risk at this time with Y2K computer faults.

Frequent or ongoing catastrophic claims can negatively impact a self-insured program and negate any expected savings. The current risk market for stoploss insurance is very expensive and inflexible concerning plan provisions. The result is stoploss coverage is very hard to place under favorable terms and quite frequently limits coverage.

Prepared by:

William J. Curtin Employee Benefit Services Frank P. Cascone

Employee Benefit Services



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